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PRESS RELEASE

ECB TO GIVE BANKS SIX TO NINE MONTHS TO COVER CAPITAL SHORTFALLS FOLLOWING COMPREHENSIVE ASSESSMENT

- Banks will be expected to cover capital shortfalls within six to nine months after the disclosure of the results of the comprehensive assessment.
- Capital shortfalls arising from the asset quality review and baseline stress test scenario must be covered by Common Equity Tier 1 (CET1) capital instruments.
- Capital shortfalls stemming from the adverse scenario can be covered in other ways, but the use of convertible capital instruments is subject to limits designed to support the use of instruments with higher triggers. The instruments with a trigger at or above 7% CET1 qualify to cover the shortfall up to 1% overall RWA.
- The outcome of the asset quality review will influence the results of significant banks taking part in the EBA stress test exercise. Combining the point in time asset quality review with the forward-looking stress test is the key strength of the comprehensive assessment.

The ECB has today informed banks how capital shortfalls must be addressed following the comprehensive assessment. This announcement follows today's release by the European Banking Authority (EBA) of the methodology and scenarios for the EU-wide stress test. Together with the asset quality review, the stress test is a key pillar of the comprehensive assessment. The ECB has collaborated closely with the EBA on the stress test methodology and with the European Systemic Risk Board (ESRB) who produced the adverse scenario. The baseline scenario was produced by the European Commission. The ECB will publish the results of the comprehensive assessment in October 2014, before it takes over its supervisory tasks within the Single Supervisory Mechanism (SSM).

Capital shortfalls will be expected to be covered within six months for those identified in the AQR or the baseline stress test scenario, and within nine months for those identified in the adverse stress test scenario. Recapitalisation measures to cover any shortfalls detected should rely on capital instruments of the highest quality, unless the shortfalls are reduced through other means.

Vitor Constâncio, Vice-President of the ECB, said: "In anticipation of any shortfalls, banks should start to consider what private sources of capital could be raised as a result of this exercise and plan accordingly, taking into account that the capital plans they will have to present

can include retained earnings, reduced bonus payments, new issuances of common equity, suitable strong contingent capital and sales of selected assets at market prices.”

The ECB also informed banks of the specific constraints on the capital instruments that may be eligible to address shortfalls arising from the comprehensive assessment. Shortfalls revealed by the AQR and the baseline stress test scenario may only be covered by Common Equity Tier 1 (CET1) capital instruments. The use of Additional Tier 1 (AT1) capital instruments to cover shortfalls arising from the adverse stress test scenario is limited, depending on the trigger point of conversion or write-down. This is intended to ensure a focus on high-quality capital elements and support the use of higher-trigger AT1 instruments if they are included in the covering of the capital shortfall.

The use of Additional Tier 1 instruments is limited to a maximum of 1% overall risk weighted assets (RWA), subject to the following specifications:

- instruments with a trigger below 5.5% CET1: 0% of overall RWA;
- instruments with a trigger at or above 5.5% and below 6% CET1: up to 0.25% overall RWA;
- instruments with a trigger at or above 5.5% and below 7% CET1: up to 0.5% overall RWA;
- instruments with a trigger at or above 7% CET1: up to 1% overall RWA.

Further progress has also been made on the AQR. Danièle Nouy, Chair of the Supervisory Board of the SSM, said: “Intensive activity on the AQR continues on track and is now running in parallel with the stress testing exercise, involving an estimated 6,000 supervisors and auditors. In recent weeks, banks’ processes and accounting-related policies have been reviewed and the relevant information has been collected for the selection of samples for the credit file review and the collective provisioning analyses. Reviews of collateral, provisioning and exposures have started and will be completed by the end of the summer. The AQR findings will be incorporated into the stress test results, a unique feature of the comprehensive assessment. This feature is an enhancement not seen in past large-scale stress test exercises. Following the publication of the results, the ECB will request banks to submit capital plans detailing how shortfalls will be covered.”

For media queries, please contact Uta Harnischfeger, tel.: +49 69 1344 6321 or Ronan Sheridan, tel.: +49 69 1344 7416

European Central Bank

Directorate General Communications and Language Services, Press and Information Division

Kaiserstrasse 29, D-60311 Frankfurt am Main

Tel.: +49 69 1344 7455, Fax: +49 69 1344 7404

Internet: <http://www.ecb.europa.eu>

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